

A wide-angle photograph of the San Diego harbor and skyline. The water is a deep blue-green, filled with numerous sailboats of various sizes. In the background, the city skyline is visible under a clear blue sky, featuring several prominent skyscrapers and a large cruise ship docked on the right. The text "Annual Budget Financial Summary" is overlaid in white on the lower right portion of the image.

Annual Budget Financial Summary

Financial Summary

General Fund Revenue

General Fund Revenue

Total General Fund revenue for the Annual Fiscal Year 2004 Budget is \$743.0 million, a 1.9 percent increase over the Fiscal Year 2003 Budget. General Fund revenue funds core City services including Public Safety, refuse collection, library services and parks and recreation programs.

Five major General Fund revenue sources comprise 68.5 percent of the City's General Fund. These are Property Tax, Sales Tax, Transient Occupancy Tax (TOT), Motor Vehicle License Fees (MVLFF), and Franchise Fees. These major revenue sources, along with other General Fund revenue sources, are highly sensitive to economic and political conditions at the local, State, and national levels.

According to the Economic Research Bureau, San Diego Regional Chamber of Commerce, San Diego's real Gross Regional Product (GRP) grew at 2.4 percent in calendar year 2002, following 2.6 percent growth in 2001. This is in stark contrast to the real growth rates of 8.5 and 9.0 percent experienced in 1998 and 1999. Even with the growth rates in 2001 and 2002 being the lowest since 1995, San Diego's economy continued to grow during the State and national recessions.

While San Diego's economy has continued to outperform both the State and national economies, local recovery has been slow through the first half of 2003. The University of San Diego's Index of Leading Economic Indicators for the San Diego region fell 0.2 percent in June, marking the fourteenth decrease in the last fifteen months. The Index posted a slight 0.1 percent gain in May, though largely due to a robust increase in the national Index of Leading Economic Indicators. Of particular concern is the deterioration of the region's job market. According to the California Employment Development Department, San Diego County's unemployment rate held steady at 4.5% in July, up from 4.2% in May. Although the region gained 8,200 jobs over July 2002, it lost 10,100 from the preceding month, and marked the first month since March in which the region did not lose jobs on a year-over-year basis.

On a more positive note, the region's housing and tourism markets are among the strongest in the country. Despite rising mortgage rates and gradually declining sales, home prices in San Diego County continue to rise. According to the San Diego Association of Realtors, none of the most populous areas in the county have seen a drop in home prices. In addition, the region's industrial real estate market remains strong, and the office market is expected to strengthen in the year to come. San Diego's tourism market has fared better than most of the top national markets as well. According to Smith Travel Research, San Diego County led all other major tourism markets in the country over the July 4th weekend, posting a 98 percent occupancy rate. Through the first half of 2003, San Diego has the third highest occupancy rate in the country, behind only New York and Oahu, Hawaii.

On the national level, most signs are pointing to a general increase in economic growth. Gross Domestic Product grew at a revised 3.1 percent annual rate in the second quarter of 2003, exceeding expectations of 2.9 percent growth. Surging corporate profits fueled a 6.9 percent increase in business spending in the second quarter. The national Index of Leading Indicators rose 0.4 percent in July of 2003, the fourth consecutive monthly increase. Wholesales increased by the largest margin in 14 months while industrial production grew at the fastest rate since January, and factory output reached a three-month high. The labor market, however, continues to be a drag on the economy, as the nation lost 44,000 jobs in July.

Property Tax

Other Local Taxes

- Sales Tax
- Safety Sales Tax
- Transient Occupancy Tax
- Property Transfer Tax

Licenses and Permits

Fines, Forfeitures, and Penalties

Revenue from Money and Property

- Interest Earnings
- Franchise Fees
- Rents and Concessions

Revenue from Other Agencies

- Motor Vehicle License Fees
- Other

Charges for Current Services

Other Revenue

Transfers from Other Funds

Financial Summary

General Fund Revenue

At the State level, all eyes are on the attempted recall of Governor Gray Davis. While it has been estimated that the recall election could cost the State as much as \$40 million, it is no match for the \$38 billion deficit that was bridged by the legislature when it passed the State's Fiscal Year 2004 Budget in mid July. Among other features, the budget eliminates the backfill of Motor Vehicle License Fees to local governments, while increasing the fees to preexisting levels. However, the VLF will not increase until October 1, bringing with it a significant amount of revenue shortfall for local governments, including approximately \$13 million for the City of San Diego.

At the time the City of San Diego's Annual Fiscal Year 2004 Budget was approved in June 2003, the State had not yet passed its budget. As a result, potential impacts due to State action were unknown, and could not be incorporated into the City's Annual Budget. The following pages in this Financial Summary contain information regarding the revenue categories listed on the previous page. A more detailed breakdown of these figures is provided in Schedule III, located in the Budget Summary Schedules section of this Financial Summary.

Total City Budget
\$207.2 million

General Fund Budget
\$199.8 million

Percent of General Fund
26.9%

Property Tax

Property Tax revenue collected by the County Tax Collector is a result of a one percent levy on the fair market value of all real property. Proposition 13, passed by voters in 1979, restricts aggregate Property Taxes to one percent of assessed value, and specifies that the assessed value of any real property may increase at the rate of the Consumer Price Index (CPI), not to exceed two percent per year based on the 1979 value, unless the property is improved or sold at which time the property is reassessed at market value.

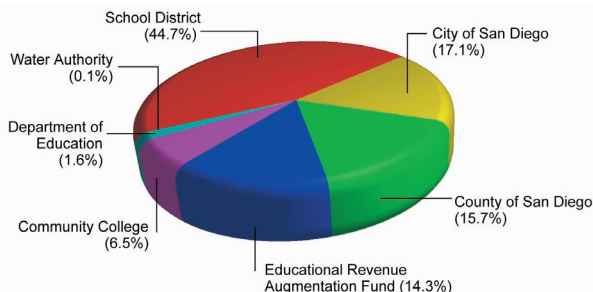
The County of San Diego distributes Property Tax in 13 apportionments to a number of agencies within the City's geographic area, including the County itself, the City of San Diego, school districts, and special districts. For every \$100 collected, the allocation to the City's General Fund totals \$17.10.

The Annual Fiscal Year 2004 General Fund Budget for Property Tax Revenue is \$199.8 million, an eight percent growth over Fiscal Year 2003 year-end projections, reflecting a housing market that remains robust. Despite rising mortgage rates, housing prices in San Diego County, and throughout the State and the nation, continue to post impressive gains. According to DataQuick Information Systems, the median price of existing homes

increased to \$403,000 in July, marking the first time that the median price has gone over \$400,000. The median price of all homes declined in July to \$382,000 from June's record of \$390,000, mostly due to a decline in the price of new homes. However, July's figure still represents a 14.7 percent increase over the same month last year. Despite these price gains, some signs indicate that San Diego's housing market may have hit its peak. DataQuick indicated that sales through July are down slightly from 2002, while the National Association of Realtors (NAR) reported that second-quarter sales were down 2 percent from last year.

The local trend of decreased sales does not appear to be mirrored at the State and national levels. The median price of existing homes and condos in California rose to \$318,000

Property Tax Allocation



Financial Summary

General Fund Revenue

in July, a 17.3 percent increase over July 2002. Unlike San Diego, these price gains were fueled by increased sales. In June, Statewide sales of existing homes and condos increased 10.3 percent over the prior year. Likewise, a report from the NAR showed that nationwide sales of existing homes in July increased 5 percent from June's annual pace, marking the fastest pace of home sales on record.

San Diego's commercial real estate market is also poised for growth. A report by Burnham Real Estate Services showed that the industrial market absorbed 1.17 million square feet of space through the first half of 2003, compared to 982,709 square feet through the same period last year. The industrial vacancy rate in San Diego County stands at 8.4 percent.

The report also showed that San Diego's office market, while still weak, is one of the strongest in the nation. The office market is projected to achieve 1.2 million square feet of net absorption by year-end, lowering the vacancy rate to 11.5 percent, down from the current rate of 12.6 percent.

Over the past decade, many factors have contributed to reductions in the amount of Property Tax revenue the City has received. In Fiscal Year 1993, the State took action to reduce its obligation for school funding by shifting local Property Tax revenue to school districts. This reallocation of funds caused a permanent shift in City Property Tax that will result in a cumulative loss of over \$339.1 million through Fiscal Year 2004. In addition, the State authorized counties to charge administrative fees to cities for collecting and distributing Property Tax. For the City of San Diego, that action has further reduced annual Property Tax receipts by approximately \$2.1 million per fiscal year. In addition, increasing property values in Redevelopment Areas does not increase the General Fund share of Property Tax revenue, as any increase in Property Tax due to redevelopment must stay in the redevelopment zone.

Property Tax is also collected for purposes other than supporting the General Fund. As allowed by Proposition 13, an additional levy above the one percent rate is collected to pay for debt service on voter approved debt. In June 1990, voters approved a \$25.5 million debt issuance to finance a new public safety communication system for the City, with a current balance of \$15.7 million. The levy is \$1.80 per \$100,000 of assessed valuation for Fiscal Year 2004. In addition, a special tax levy of \$5.00 per \$100,000 assessed valuation is used to fund zoological exhibits. The tax rates are adjusted annually in the Tax Rate Ordinance.

Other Local Taxes

Sales Tax

Sales Tax is the City's second largest source of revenue in the General Fund. Collected at the point of sale, Sales Tax revenue is remitted to the State Board of Equalization, which allocates tax receipts owed to the City in the form of monthly payments. The City receives one cent (or 13.8 percent) of the total 7.25 cent statewide Sales Tax levied on each dollar of taxable sales. In addition, San Diego County voters approved a half-cent supplemental Sales Tax in 1987 to fund the San Diego Transportation Improvement Program (TransNet), resulting in a total Countywide Sales Tax of 7.75 percent.

The Annual Fiscal Year 2004 General Fund Budget for Sales Tax revenue is \$124.6 million, a 3 percent growth over Fiscal Year 2003 year-end projections, reflecting a slow

Total City Budget
\$191.6 million

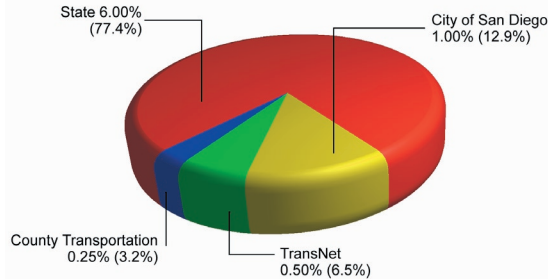
General Fund Budget
\$124.6 million

Percent of General Fund
16.8%

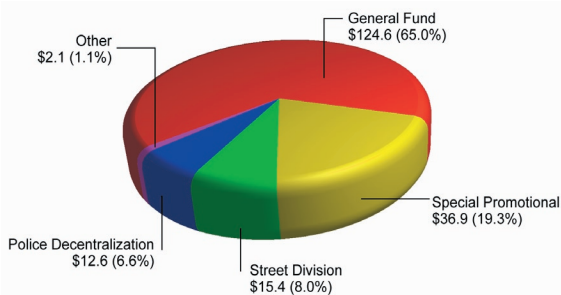
Financial Summary

General Fund Revenue

Sales Tax Allocation



Total City Sales Tax Allocation (In Millions)



economic recovery. Sales Tax revenue is highly sensitive to economic conditions, and reflects the levels of unemployment, consumer confidence, per-capita income, and business investment. These factors have a positive relationship with taxable sales, which is the main determinant of Sales Tax revenue.

San Diego County's unemployment rate climbed to an unadjusted rate of 4.5 percent in June, according to the California Employment Development Department, up from 4.2 percent in May. Although the rate has held steady at 4.5 percent in July, the region lost 10,100 jobs in the past month, and has lost jobs on a year-over-year basis in three of the last four months. Still, the local unemployment rate compares favorably to that of the State and the nation. In July, the nation's non-seasonally adjusted unemployment rate fell to 6.3 percent from 6.5 percent in June, while California's unemployment rate increased to 6.9 percent in July, up from 6.8 percent in June. Local economists predict the unemployment rate in San Diego to remain in the mid-four percent range in throughout calendar year 2003.

Despite the struggling labor market, Nationwide retail sales surged in July, rising 1.4 percent to \$317.2 billion, compared to a revised increase of 0.9 percent in June. Sales of automobiles and auto parts led the gain, rising 3.2 percent. Sales of electronics and appliances increased 1.2 percent. Still, many economists worry that a prolonged labor market slump, combined with rising mortgage rates, may curtail consumer spending. On the positive side, it is hoped that the recent tax cuts will free up enough cash to keep consumers spending.

In addition, there are signs that businesses are poised to resume spending. The 1,336 companies in the Dow Jones Total Market Index that had posted second-quarter earnings reported combined net income of \$115.87 billion, up from \$74.12 billion in the same period last year. The Commerce Department reported that businesses increased spending by 6.9 percent in the second quarter, the fastest pace in three years, while a Wall Street Journal survey of over 50 economists revealed that over 90 percent of those polled indicated that they believe the rise in corporate profits will spur companies to increase capital spending and investment in the next six months.

Total City Budget
\$6.2 million

General Fund Budget
\$3.4 million

Percent of General Fund
0.5%

Safety Sales Tax

Safety Sales Tax revenue is derived from a half-cent Sales Tax, approved by voters on November 2, 1993 with the passage of Proposition 172, which must be utilized solely for local public safety purposes. The State Controller's Office disburses Safety Sales Tax revenue to the County Local Public Safety Fund for distribution. Cities receive five percent of the amount in the Fund based upon their 1993-94 allocation that was derived from their proportionate loss of Property Tax revenue to school districts. Subsequent legislation (Senate Bill 8) changed the allocation system for Proposition 172 revenue and lifted the cap on the share that the City of San Diego and other cities could receive. Total revenues reflect additional funds received by the City as a result of this legislation.

Financial Summary

General Fund Revenue

The Annual Fiscal Year 2004 Budget projects a 3 percent growth in Safety Sales Tax receipts, reflecting slow projected growth in the local economy. As with regular Sales Tax revenue, Safety Sales Tax revenue is sensitive to economic conditions, particularly factors that influence taxable sales, such as employment levels, consumer confidence, per-capita income, and corporate spending. These factors indicate that taxable sales will experience a small but positive growth in Fiscal Year 2004.

Of the \$6.2 million included in the Annual Fiscal Year 2004 Budget, approximately \$2.8 million is allocated for the debt service payments on fire and lifeguard facility improvements with the remainder allocated to the General Fund for public safety expenditures. City Council Policy 500-07 directs the use of Proposition 172 funds for new public safety expenditures to ensure an augmentation of existing General Fund public safety expenditure levels. In actuality, increases to public safety expenditures in the Police and San Diego Fire-Rescue departments have far exceeded the revenue growth of Safety Sales Tax, ensuring the City's compliance with Council Policy 500-07.

Transient Occupancy Tax

Transient Occupancy Tax (TOT) is levied on the daily rental price of a room in a lodging facility when used by visitors staying in San Diego for less than 30 days. A 1.5 percent increase became effective in August 1994, increasing the TOT rate to 10.5 percent. The equivalent of 5.5 percent is allocated directly to the General Fund for general government purposes, while the balance is allocated for various promotional and other purposes as designated by City Council policy and through the Special Promotional Programs budget.

The Annual Fiscal Year 2004 General Fund Budget for TOT revenue is \$58.0 million, reflecting 5.5 percent economic growth over Fiscal Year 2003 year-end estimates. This somewhat conservative estimate reflects moderate growth in San Diego's tourism industry. The estimate is based on Fiscal Year 2003 year-end estimates, adjusted to remove the one-time revenues associated with Super Bowl XXXVII and new hotels. Among the new hotels that will contribute TOT revenue to the City of San Diego in Fiscal Year 2004 is the 33-story, 750-room expansion tower of the Manchester Grand Hyatt, and the 261-room W San Diego hotel in the heart of downtown, both currently open for business. In addition, the 512-room Omni hotel, which will be connected to the new PETCO Park's main concourse by a sky bridge, is under construction and expected to open in spring 2004.

San Diego's tourism market continues to be one of the strongest in the nation. Over the July 4th weekend, San Diego County's occupancy rate reached 98 percent, the highest of any major tourism market in the country. San Diego maintained the top ranking throughout the month of July, posting an occupancy rate of 86.1 percent for the month, up from 81.4 percent in July 2002. Since January 1, San Diego has an occupancy rate of 70.7 percent, up one-tenth of a percent from the same period last year, ranking behind only Oahu, Hawaii and New York City. San Diego's Average Daily Room Rate (ADR) has also increased 2.6 percent from 2002.

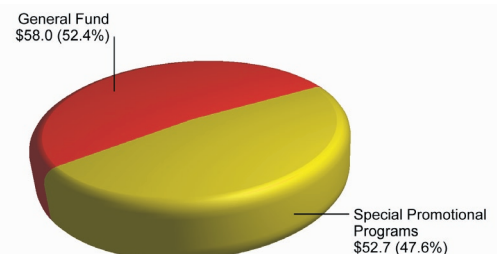
Approximately 70 percent of San Diego's hotel guests are leisure travelers, most of whom reside within driving distance. As a result, San Diego's lodging industry had been less affected than

Total City Budget
\$110.7 million

General Fund Budget
\$58.0 million

Percent of General Fund
7.8%

Total City Transient Occupancy Tax Allocation (In Millions)



Financial Summary

General Fund Revenue

other major markets by the decrease in airline travel. Despite the apparent emphasis on local tourism, business travel has also fared well. Although there has been one less convention through June 2003 than during the same period in 2002, delegate attendance has increased 23.4 percent, and delegate spending has increased 6.9 percent. The San Diego Convention Center was expanded in September 2001.

The City of San Diego recently received some national recognition as a popular travel destination. According to a survey taken by Priceline.com, San Diego's downtown and Harbor Island areas were ranked as the fourth most popular travel destinations in the country, beating out cities such as New Orleans, Vancouver, and Boston.

Total City Budget
\$8.5 million

General Fund Budget
\$8.5 million

Percent of General Fund
1.1%

Property Transfer Tax

A Property Transfer Tax is levied on the sale of real estate property. The County of San Diego charges \$1.10 per \$1,000 of sale price when any real property is transferred. The City of San Diego charges \$0.55 per \$1,000, which is credited against the County's charge, so that the City and the County both receive \$0.55 per \$1,000. The funds are collected by the County Recorder for property transfers that occur within City limits, and transferred to the City in 13 apportionments throughout the year.

The Annual Fiscal Year 2004 Budget projects a 6 percent growth in Property Transfer Tax revenue over Fiscal Year 2003 year-end estimates, reflecting strong sales of residential and commercial property. Rising mortgage rates have spurred residential purchases across the country as consumers race to buy homes before rates increase further. Commercial investment sales recorded all-time high prices and a near record level of sales activity in 2002, with office sales alone totaling \$1.05 billion. Through the first half of 2003, San Diego County has already recorded nearly \$800 million in office sales. The downtown area alone accounted for \$448 million in office acquisitions in the last ten months, with such notable sales as One American Plaza (\$166.3 million), Symphony Towers (\$134.3 million) and First National Bank Center (\$111.5 million).

Property Transfer Tax revenue is influenced by real estate prices and the sales activity in the market. Although the National Association of Realtors reports that home sales are declining, the continued increase in prices has more than made up for the decrease in sales activity. DataQuick Information Services reported that the median price of new homes in San Diego County for July was \$382,000. Commercial real estate sales also provide substantial Property Transfer Tax revenue. Although there are fewer sales than in the residential market, each transaction is worth much more. For example, the sale of a median-priced home would generate just \$2,100, whereas the sale of the One American Plaza office tower in December 2002 for \$166.3 million generated over \$91,000 in Property Transfer Tax revenue.

Financial Summary

General Fund Revenue

Licenses and Permits

The Licenses and Permits category reflects revenue generated to recover costs associated with performing regulatory functions. These functions are typically performed by government due to public safety considerations. Included in this category are business taxes, rental unit taxes, and parking meter revenue.

The business tax for businesses with 12 or fewer employees is a flat rate of \$34. Business taxes for businesses with 13 or more employees are based on a flat rate of \$125 plus a fee of \$5 per employee. Rental unit taxes are calculated as a flat rate plus a fee per rental unit. Currently, the rental unit tax has three rate tiers for residential properties and two rate tiers for hotel/motel properties.

The Annual Fiscal Year 2004 General Fund Budget for Licenses and Permits is \$23.4 million, a 8.3 percent increase over Fiscal Year 2003. The increase is due primarily to a 25 percent increase in parking meter rates, from \$1.00 to \$1.25 per hour.

Total City Budget
\$57.6 million

General Fund Budget
\$23.4 million

Percent of General Fund
3.2%

Fines, Forfeitures, and Penalties

Fines, Forfeitures, and Penalties include revenue generated from monetary sanctions associated with the violation of a law or regulation such as California Vehicle Code violations, City parking and ordinance violations, and litigation awards.

The Annual Fiscal Year 2004 General Fund Budget for Fines, Forfeitures, and Penalties is \$29.4 million, a 9.2 percent increase over Fiscal Year 2003, which is due to a projected growth in the number of parking citations.

Total City Budget
\$30.5 million

General Fund Budget
\$29.4 million

Percent of General Fund
4.0%

Revenue from Money and Property

Interest Earnings

The City Treasurer is responsible for investing the City's cash assets exclusive of City Pension Trust Funds. All City funds are pooled and invested together to facilitate increased flexibility in the management of the portfolio for the purpose of maximizing interest earnings. Fund investment must be consistent with the City's investment policy and the State's restrictions on types of investments. Investments may be held up to five years, depending on the climate in the investment marketplace and the cash flow requirements of the City.

The projections for interest earnings are based on assumptions as to the average amount to be invested and a forecast of the general level of interest rates throughout the fiscal year. The City Treasurer is currently managing the core portfolio on a total return basis. Major deviations in returns from one fiscal year to the next can generally be attributed to changes in market interest rates or the actual average amount invested in the fiscal year. Past interest performance is no guarantee of future results.

The decline in interest rates over the last couple of years has increased the value of securities bought in prior periods when interest rates were generally higher. When these securities are sold, the City realizes this increase in value as capital gains which are included in Interest Earnings.

Total City Budget
\$33.5 million

General Fund Budget
\$1.2 million

Percent of General Fund
0.2%

Financial Summary

General Fund Revenue

When portfolio securities are sold in a declining interest rate environment, the proceeds from those sales are reinvested at lower yields. The financial impact of lower reinvestment yields will result in a reduction of future interest earnings as compared to Fiscal Year 2003. Should interest rates start to rise in the next fiscal year, securities that are owned will experience an immediate decrease in value. Higher reinvestment yields will mitigate some of the impact to projected interest earnings. Based on these assumptions, as well as the fact that the General Fund's ratio of the investment pool is also declining, the City's total interest earnings for Fiscal Year 2004 will be significantly less than in Fiscal Year 2003. The Annual Fiscal Year 2004 Interest Earnings General Fund Budget is projected to be \$1.2 million, which will result in a \$4.7 million reduction in General Fund earnings compared to the Fiscal Year 2003 budget.

Total City Budget
\$101.0 million

General Fund Budget
\$52.1 million

Percent of General Fund
7.0%

Franchise Fees

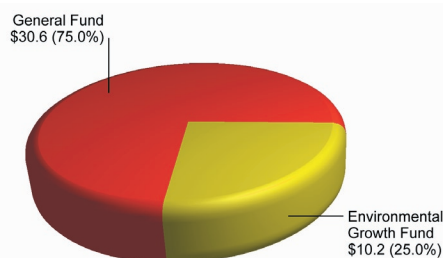
Franchise Fees are paid to the City of San Diego by private utility companies in exchange for the permission to use the City's rights-of-way. Franchise Fees are usually charged as a percentage of gross sales, although other types of charges are common. Rates are set through Franchise Agreements that are negotiated with individual utility companies, which often contain provisions for renegotiation after a standard period of time. The City of San Diego currently has franchise agreements with San Diego Gas & Electric (SDG&E), Cox Communications, and Time Warner Cable. In addition, the City collects a Refuse Haulers Franchise Fee from private refuse haulers.

The Annual Fiscal Year 2004 Budget projects a five percent increase in Franchise Fee revenue from SDG&E, the largest generator of Franchise Fee revenue. SDG&E is charged three percent of gross gas and electric sales within the City of San Diego. This revenue is required to be allocated as follows: 75 percent to the General Fund and 25 percent to the Environmental Growth Fund (EGF). One-third of the EGF allocation is used to finance various environmental programs such as regional park and open space maintenance. The remaining two-thirds of the EGF is used for debt service on open space acquisition bonds.

The Franchise Fee revenue from SDG&E has been unstable over the last two years due to the energy industry's deregulations. In Fiscal Year 2002, Franchise Fee revenue from SDG&E was significantly higher than budgeted due to an enormous increase in natural gas prices. In Fiscal Year 2003, a significant and unexpected decrease in natural gas prices resulted in lower than budgeted revenue from SDG&E Franchise Fees. In Fiscal Year 2004, it is anticipated that natural gas prices will stay relatively high, resulting in increased Franchise revenue from SDG&E.

In addition to the current three percent Franchise Fee, the City Council approved a surcharge on electricity sales, which is 4.5 percent on an annual basis, for the undergrounding of electric utility lines. The surcharge is estimated to raise \$38.8 million per year for the City, to be used solely for the purpose of placing utility lines underground. The surcharge was approved by the California Public Utilities Commission in December 2002.

Total City SDG&E Franchise Fee Allocation (In Millions)



The Franchise Agreement with Cox Communications was renegotiated in 2002, which increased the Franchise Fee charged to the cable provider from three to five percent of gross sales. Time Warner Cable continues to be charged three percent of gross sales. In July 2002, the Refuse Haulers Franchise Fee was increased by \$1 to \$10 per ton for Class I haulers (less than 75,000 tons per year) and \$11 per ton for Class II haulers (more than 75,000 tons per year). In April 2003, the Franchise Fee was again increased by \$1, taking effect July 1 of Fiscal Year 2004.

Financial Summary

General Fund Revenue

Rents and Concessions

The Rents and Concessions category includes General Fund revenue generated from Mission Bay Park, Balboa Park and Torrey Pines Golf Course.

The largest component of this category is Mission Bay Park rents and concessions revenue, the majority of which is generated from leases with Sea World, Marina Village Conference Center, and hotels and marinas within Mission Bay Park. This revenue source is projected at \$20.0 million in Fiscal Year 2004.

Another component of this category relates to revenue generated from lease agreements on City Pueblo lands, which in Fiscal Year 2004 is projected at \$3.1 million.

Total City Budget
\$54.7 million

General Fund Budget
\$31.4 million

Percent of General Fund
4.2%

Revenue from Other Agencies

Motor Vehicle License Fees

Motor Vehicle License Fees (MVLFF) are calculated as a percentage of an automobile's market value and are paid annually to the Department of Motor Vehicles at the time of registration. The fees are forwarded to the State Controller's Office and are distributed statewide to counties and cities on a per capita basis. Of the total revenue received by the State, cities and counties are apportioned 81.25 percent and 18.75 percent, respectively. Notably, because statewide revenues are distributed on a per capita basis, increases to local vehicle sales do not directly translate into local MVLFF revenue increases.

Total City Budget
\$74.9 million

General Fund Budget
\$74.9 million

Percent of General Fund
10.1%

The Annual Fiscal Year 2004 Budget for MVLFF is \$74.9 million, a three percent increase over Fiscal Year 2003 year-end projections. This conservative estimate reflects slower Statewide auto sales, as zero percent financing and other incentives in calendar year 2002 have likely "stolen" auto sales from 2003 and 2004.

New vehicle registrations in California, which affect the MVLFF collected by the State, recorded tremendous growth during Fiscal Year 2003. According to *Economy.com*, a leading provider of macroeconomic data, consumers purchased a seasonally-adjusted average of 16.7 million new cars and light trucks per month in calendar year 2002, the fourth best year on record. In Fiscal Year 2004, growth in automobile sales is projected to continue, although at a slower rate. *Economy.com* recently reported that sales through the first half of 2003 have averaged a seasonally adjusted annual pace of 16 million units, slower than in the same period in 2002. However, things appear to be picking up. July's sales figures were surprisingly strong, registering in at a seasonally adjusted annual rate of 17.1 million units, up 1.1 million from June. July sales were fueled by high incentive spending and the need for dealers to clear their lots of 2003 models.

According to *Economy.com*, three factors will potentially constrain auto sales through the rest of 2003: the flat labor market, deteriorating credit quality, and spent-up demand. However, these factors are at least partially offset by high affordability, as low interest rates and home refinancing increase purchasing power. In addition, fleet sales are likely to increase as businesses once again begin spending.

As part of the State's Fiscal Year 2004 Budget, the State backfill of VLF receipts to local governments that resulted from the 1999 VLF offset has been postponed for three Fiscal Years. In order to hold local governments harmless, a trigger has been pulled to reinstate the VLF to its pre-existing rate of two percent of a vehicle's value. Since the rate did not actually increase until October, these policies have resulted in a loss of revenue for the City of San Diego that is not reflected in the Annual Fiscal Year 2004 Budget revenue estimate.

Financial Summary

General Fund Revenue

Total City Budget
\$102.5 million

General Fund Budget
\$10.4 million

Percent of General Fund
1.4%

Other

A significant amount of revenue received by the City is initially collected by other agencies and then returned (or subvended) to the City. Within the General Fund, Revenues from Other Agencies include federal and State grants, and reimbursement for general City services provided to the Unified Port District.

The Annual Fiscal Year 2004 General Fund Budget includes revenue totaling approximately \$10.4 million in this category, including \$5.2 million in State reimbursements for booking-fee related expenses. The City expects to receive \$2.5 million from the State for the Community Policing Services (COPS) Program and \$1.2 million in Local Law Enforcement Block Grant.

The State Police Officer Standards and Training (POST) grant reimbursement, included in the General Fund beginning in Fiscal Year 1995, is budgeted at \$100,000 in Fiscal Year 2004.

Total City Budget
\$705.9 million

General Fund Budget
\$70.9 million

Percent of General Fund
9.5%

Charges for Current Services

Charges for Current Services includes revenue generated by General Fund departments resulting from services provided to other City funds. General Fund departments regularly incur expenses in the process of performing services for other City funds and receive reimbursement for direct, indirect, and overhead costs. Such instances include general government services and facilities maintenance services provided to other City funds. Refer to Schedule III of this Financial Summary for a breakdown of the budgetary data by subcategory.

Total City Budget
\$444.7 million

General Fund Budget
\$0.9 million

Percent of General Fund
0.1%

Other Revenue

Other Revenue represents 0.1 percent of total General Fund revenue and mainly consists of revenue generated from the sale of publications and excess inventory. This category, however, represents a substantial portion of the Sewer Fund and Water Fund revenues related to bond proceeds.

Total City Budget
\$136.6 million

General Fund Budget
\$42.7 million

Percent of General Fund
5.7%

Transfers from Other Funds

The revenue in the Transfers from Other Funds category reflects transfers to the General Fund from several funds and includes a transfer from Special Promotional Programs to cover the costs of maintenance of tourist-oriented facilities and permanent police officers added during Fiscal Years 1994 through 1998 in response to the adoption of the Public Safety Ordinance.